

AR47



L'enfant Terrible

MEUBLES ET APPAREILS ÉLECTRO-MÉNAGERS

Full

Bad Boy

APPLIANCES AND FURNITURE LIMITED

ANNUAL REPORT for fiscal year ended April 5, 1975

Contents

1. Financial Highlights
 2. Officers and Directors
 3. Report to Shareholders
 4. Leadership in Advertising
 6. Expansion into Montreal
 8. Consolidated Balance Sheet and Auditors' Report
 10. Consolidated Statement of Earnings and Retained Earnings
 11. Consolidated Statement of Changes in Financial Position
 12. Notes to Consolidated Financial Statements
- Inside back cover : Store Locations

Corporate Offices

2770 Dufferin Street
Toronto, Ontario M6B 4C1

Transfer Agent and Registrar

The Royal Trust Company

Listed

Toronto Stock Exchange

Solicitors

Miller, Thompson, Sedgewick, Lewis & Healy
J. Friedman, Q.C.

Auditors

Laventhol & Horwath
Chartered Accountants

Bankers

Toronto-Dominion Bank

Annual Meeting

Royal York Hotel,
Toronto, Ontario
September 26, 1975
11.00 a.m.

Front Cover

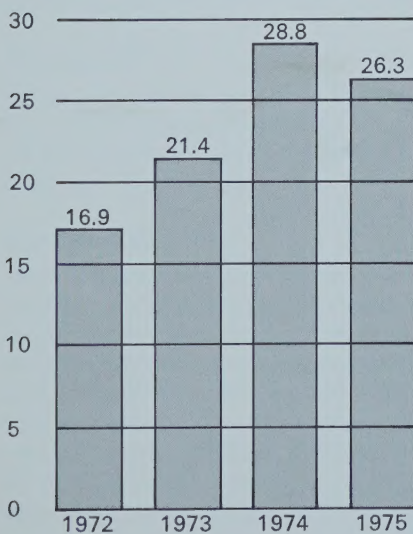
Meet L'enfant Terrible, Bad Boy's French-speaking alter ego, whose name has been combined with the regular Bad Boy name in Quebec. Our centre spread of colour photographs features our expansion into the Montreal area.

Financial Highlights

	April 5, 1975	April 6, 1974	Net Percentage Change
Sales	\$48,498,585	\$47,370,444	+ 2.4
Earnings before income taxes	2,341,462	3,762,484	-37.8
Net earnings	1,190,314	1,843,897	-35.5
Net earnings per share	\$.60	\$.92	-34.8
Number of shares outstanding	2,000,000	2,000,000	—
Total assets	\$23,147,628	\$14,530,582	+59.3
Shareholders' equity per share	\$ 3.39	\$ 2.87	+18.1
Approximate number of employees	500	425	
Number of stores at year end	31	29	

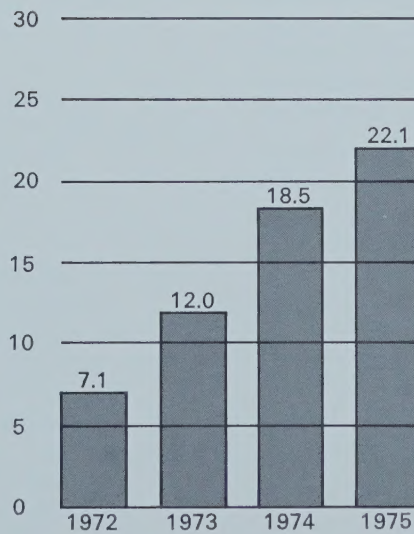
Appliance Sales

in millions of dollars



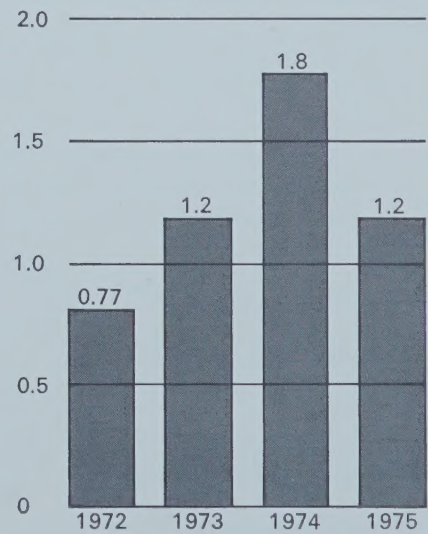
Furniture Sales

in millions of dollars



Earnings

in millions of dollars



Bad Boy Appliances and Furniture Limited

Officers

Melvin D. Lastman
President
Willowdale, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Ben S. Mandell
Vice-President, Sales
Downsview, Ontario

Samuel A. Stenzler
Vice-President, Advertising
Downsview, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Directors

Myrle W. Book
President, M. Book Management Limited
Weston, Ontario

Michael Curry
President, Cochran Murray & Wisener Limited
Toronto, Ontario

Jack Friedman, Q.C.
Toronto, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Melvin D. Lastman
President
Willowdale, Ontario

Report to Shareholders

Due to the general recession, net earnings for the past fiscal year were down significantly. As soon as the first signs of the economic slump were apparent, we reduced inventory and sales were lost due to an inadequate supply of merchandise. However, we are now experiencing a recovery and all Bad Boy management and staff have again become expansion-minded – a frame of mind in which we are more comfortable.

Sales

Sales for the year ended April 5, 1975 rose 2.4 per cent to \$48,498,585 from \$47,370,444 in the previous year. Since 1970 when our company began its expansion of furniture selling facilities, the sales have grown considerably. Furniture sales in the past fiscal year climbed to \$22.1 million from \$18.5 million a year ago, up 19 per cent. Furniture now accounts for 46 per cent of our total sales. Early results in the current year reflect continued growth.

Because of the recession and a drop in housing starts, appliance sales suffered a major decline of 9 per cent in the past year to \$26.3 million. The entire appliance industry has suffered a great setback but we feel that Bad Boy's dominance and competitiveness in this area remains as strong as ever.

Earnings

Net earnings for the fiscal year were \$1,190,314 or 60 cents a share, down from \$1,843,897 or 92 cents the year before. The latest financial results include \$179,000 in start-up expenses for expansion in the Montreal area, which opened subsequent to our year end. All opening expenses for seven Ontario stores have also been written off in the past fiscal year.

Generally, earnings were affected because of store start-up costs, the slowdown in the economy, higher operating costs, the reduction of inventory and lower profit margins in appliances due to market conditions.

Dividends

A tax-paid dividend of 6 cents per share was paid during the past year and this rate is being maintained for the current year, payable semi-annually on January 31 and July 31.

Working Capital

The costs of the real estate and the construction incurred for Windsor and Timmins, Ontario and the warehouse in Montreal, Quebec have been reflected as current assets, as these sites were subsequently sold immediately after the year end and leased back by the company. The cash received on the sale was used to reduce the bank indebtedness by approximately \$4,800,000 and to discharge the existing mortgages. As a result of these transactions, the working capital of the company was increased by \$315,000.

Expansion

The following seven Ontario stores, including four replacement outlets, were opened: North Bay in April, 1974; Oakville in July, 1974; Scarborough in September, 1974; Windsor in December, 1974; Mississauga and Timmins in January, 1975 and Kitchener in February, 1975. In the current year, a 32,000 square-foot store in Brampton opened the end of July, replacing a 13,000 square-foot outlet. An additional 50,000 square feet were added to our modern 200,000 square-foot Etobicoke warehouse last spring.

Construction is under way for a larger replacement store on Toronto's Danforth Avenue. We are planning to build a Bad Boy store in Whitby and our second store in the Ottawa area. Building permits have been applied for on company-owned land at Yonge and Steeles on Metropolitan Toronto's northern boundary and farther north in Richmond Hill.

In Metropolitan Montreal, three stores were opened in the current year. The first on Panama Street in Brossard last April 17, the second on June 5 on Jean Talon Street East in St. Léonard and the third on Côte Vertu in St. Laurent on July 17.

Sales in the Montreal area have met our projections. Market research resulted in a combination French-English name – 'L'enfant Terrible/Bad Boy' – and a new caricature insignia (see front cover).

Recently Bad Boy acquired two carpet retail outlets in Metro Toronto. Carpeting is our next area of growth potential and new Bad Boy stores will be designed to accommodate carpeting.

Outlook

Recently there have been strong indications that the economic turnaround has begun. Economists expect strong but gradual growth. We expect consumer confidence in 'big-ticket' merchandise to increase throughout the year. Considering the general economic climate, as well as our position within it, we expect increases in both sales and earnings commencing in our second quarter.

Your Board of Directors takes this opportunity to acknowledge the special effort of our staff and the continued support of our customers and suppliers in a most difficult year.

On behalf of the Board,

MELVIN LASTMAN
President

ALLEN LASTMAN
Executive Vice-President

July 30, 1975

What should you expect from the best furniture and appliance store?

(please check)

- ☐ Low prices
- ☐ Quality name brand merchandise
- ☐ Accessorized room settings
- ☐ 90-day price guarantee
- ☐ Convenient location
- ☐ Friendly, helpful sales staff
- ☐ Complete product servicing
- ☐ Chain store buying power
- ☐ And a beautiful store to shop in!

If you only checked low prices, don't come to Bad Boy. (We offer more than just the lowest price)
If you checked every single item, then you MUST come to Bad Boy NOW!

Because Bad Boy's fantastic new store at 540 Gardiners Road offers every single thing listed above!

What's more, there's a Grand Opening celebration on right now—with all the fun and excitement Bad Boy is famous for. Like free gifts for the ladies, balloons for the kids. And some lucky person will even win their purchase free!

What more can we say? It's a store not to be missed. It's a Grand Opening not to be missed.

So don't miss it!

Nobody beats Bad Boy.

540 Gardiners Road, 9 till 9 Monday thru Friday, Saturday till 6.

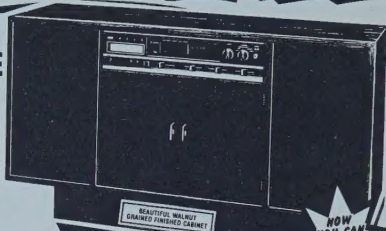
BAD BOY
3 DAY

BIG NAMES AT BIG SAVINGS!
TOMITE TILL 9 pm.
FRI. 9 am - 9 pm.
SAT. 9 am - 6 pm.

SALE ENDS SATURDAY 6 P.M.

INSTANT REBATE SALE
TAKE ADVANTAGE OF THIS SPECIAL REBATE SAVINGS TILL SAT. 6 PM... HURRY IN!
REMEMBER! FATHER'S DAY IS SUN. JUNE 15th

FOUND DESIGN STEREO CONSOLE
WITH BUILT-IN 8 TRACK RECORD AND PLAYBACK... COMPLETE WITH 2 MIKES.
2 WAY SPEAKER SYSTEM • AM/FM RECEIVER
OUR REGULAR TAGGED PRICE \$299.99
INSTANT REBATE \$50.00
YOU PAY ONLY \$249



BAR-SIZE COMPACT 5 CU. FT. REFRIGERATOR
WITH SEPARATE FREEZER SECTION...
• SMALL IN SIZE BUT BIG IN CONVENIENCE.
• PUSH-BUTTON AUTOMATIC DEFROST.
• IDEAL FOR HOME • OFFICE • APARTMENT.
• MOBILE HOME • DORMITORY.
OUR REGULAR TAGGED PRICE \$184.99
INSTANT REBATE
YOU PAY ONLY \$169



Panasonic SINKING PORTABLE TELEVISION
STYLISTIC DESIGN WITH ENGINEERING FEATURES: GREEN AND 100% SOLID PERSONAL EARPHONES. THAT'S OUT-LOOKS AND PRICE CHOICE OF COLORS.
YOU PAY ONLY \$149

12" PORTABLE TELEVISION
OUR REG. \$149.99
INSTANT REBATE \$50.00
YOU PAY ONLY \$99

19" PORTABLE COLOR TV
OUR REG. \$369.99
INSTANT REBATE \$100.00
YOU PAY ONLY \$269

Dehumidifier
OUR REG. \$149.99
INSTANT REBATE \$50.00
YOU PAY ONLY \$99

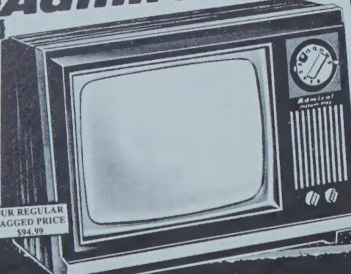
ABOVE ARE SOME SUPER GIFT SUGGESTIONS THAT ARE SURE TO PLEASE HIM... MAKE DAD HAPPY AND POCKET SOME INSTANT SAVINGS FOR YOURSELF... HURRY IN!!
90 DAY GUARANTEE
FREE DELIVERY AT NO EXTRA CHARGE
NOBODY BEATS BAD BOY
NO MONEY DOWN



YOU HAVE THE CHOICE OF ANY 26" COLOR TV'S IN STOCK

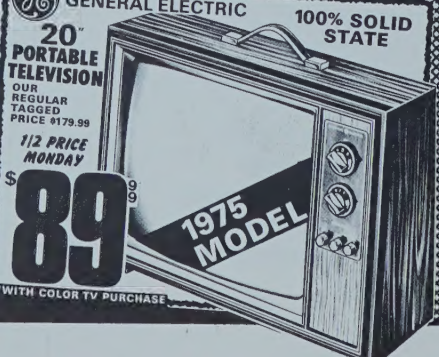
THE SELECTION IS STAGGERING

Admiral 9" PORTABLE TV
INSTANT-PLAY WALNUT GRAINED CABINET



1/2 PRICE MONDAY
\$47
WITH COLOR TV PURCHASE

20" PORTABLE TELEVISION
OUR REGULAR TAGGED PRICE \$179.99
1/2 PRICE MONDAY
\$89
WITH COLOR TV PURCHASE



IT EASY FOR YOU TO SAVE MONEY.

Bad Boy continues to set the pace in retail advertising. These pages feature a few of our creations, including (top left) the 'best retail advertisement in North America' judged at the Chicago Retail Advertising Conference.

BAD BOY LAST 2 DAYS

SHOP TONITE TILL 9 P.M.: SATURDAY 9 A.M. TO 6 P.M.

every refrigerator SALE

now on

YOU COULD WIN YOUR REFRIGERATOR PURCHASE FREE

YOU COULD BE A LUCKY WINNER COME IN FOR DETAILS

GENERAL ELECTRIC
YOU'LL NEVER DEFROST AGAIN!
13.1 cu. ft. REFRIGERATOR



SAVE 40
\$379

SPECIAL ONLY
OUR REGULAR TAGGED PRICE \$419.99

• 13.1 CU. FT. CAPACITY
• HOLDS 100 LBS. OF FROZEN FOOD

• FIBERGLASS INSULATION • TWIN CRISPERS • ADJUSTABLE SHELVES
• MEAT PAK • BUTTER AND CHEESE KEEPERS • ZERO ZONE FREEZER
• ICE TRAY BACK WITH PLASTIC ICE CUBE TRAYS • SHORE WALNUT HANDEL • COMPLETE 1 YEAR WARRANTY COVERING PARTS, LABOUR AND TRANSPORTATION

Danby
11.5 cu. ft. REFRIGERATOR
WITH FULL WIDTH FREEZER SECTION



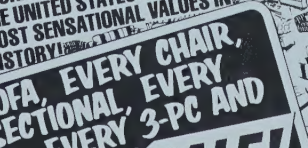
SAVE 30
\$219

SPECIAL ONLY
OUR REG. TAGGED PRICE \$249.99

• 11.5 CU. FT. CAPACITY
• 100 LBS. OF FROZEN FOOD

• FIBERGLASS INSULATION • TWIN CRISPERS • ADJUSTABLE SHELVES
• MEAT PAK • BUTTER AND CHEESE KEEPERS • ZERO ZONE FREEZER
• ICE TRAY BACK WITH PLASTIC ICE CUBE TRAYS • SHORE WALNUT HANDEL • COMPLETE 1 YEAR WARRANTY COVERING PARTS, LABOUR AND TRANSPORTATION

Admiral DELUXE
13.0 cu. ft. REFRIGERATOR
ADMIRAL "PLANNED CONVENIENCE" DESIGN



SAVE 40
\$259

SPECIAL ONLY
OUR REG. TAGGED PRICE \$299.99

• 13.0 CU. FT. CAPACITY
• 100 LBS. OF FROZEN FOOD

• FIBERGLASS INSULATION • TWIN CRISPERS • ADJUSTABLE SHELVES
• MEAT PAK • BUTTER AND CHEESE KEEPERS • ZERO ZONE FREEZER
• ICE TRAY BACK WITH PLASTIC ICE CUBE TRAYS • SHORE WALNUT HANDEL • COMPLETE 1 YEAR WARRANTY COVERING PARTS, LABOUR AND TRANSPORTATION

ADMIRAL FROST FREE REFRIGERATOR
WITH SEPARATE FROST FREE 78 3/4 LB FREEZER COMPARTMENT



SAVE 61
\$359

SPECIAL ONLY
OUR REG. TAGGED PRICE \$419.99

• 13.0 CU. FT. CAPACITY
• 100 LBS. OF FROZEN FOOD

• FIBERGLASS INSULATION • TWIN CRISPERS • ADJUSTABLE SHELVES
• MEAT PAK • BUTTER AND CHEESE KEEPERS • ZERO ZONE FREEZER
• ICE TRAY BACK WITH PLASTIC ICE CUBE TRAYS • SHORE WALNUT HANDEL • COMPLETE 1 YEAR WARRANTY COVERING PARTS, LABOUR AND TRANSPORTATION

SPECIAL AIR CONDITIONER SAVINGS THIS WEEK-END...
BIG SELECTION STILL AVAILABLE - WE CAN FIT ALMOST ANY SIZE WINDOW AND ROOM - ALL FAMOUS BRANDS

MOFFAT
"FROST FREE" REFRIGERATOR
"FROST FREE"



SAVE 100
\$799

SPECIAL ONLY
OUR REG. TAGGED PRICE \$899.99

• 13.0 CU. FT. CAPACITY
• 100 LBS. OF FROZEN FOOD

• FIBERGLASS INSULATION • TWIN CRISPERS • ADJUSTABLE SHELVES
• MEAT PAK • BUTTER AND CHEESE KEEPERS • ZERO ZONE FREEZER
• ICE TRAY BACK WITH PLASTIC ICE CUBE TRAYS • SHORE WALNUT HANDEL • COMPLETE 1 YEAR WARRANTY COVERING PARTS, LABOUR AND TRANSPORTATION

TONITE TILL 9PM SATURDAY 9AM-6PM

NEVER BEFORE... PERHAPS NEVER AGAIN...

WILL WE BE ABLE TO OFFER SUCH A HUGE SELECTION AT SUCH INCREDIBLE PRICES! DURING THE PAST FEW MONTHS OUR BUYERS SEARCHED THE FURNITURE MARKETS IN CANADA AND THE UNITED STATES AND CAME UP WITH THE MOST SENSATIONAL VALUES IN OUR 20 YEAR HISTORY!

EVERY SOFA, EVERY CHAIR, EVERY SECTIONAL, EVERY LOVESEAT, EVERY 3-PC AND 4-PC GROUPING

and more now on SALE!

NOBODY BEATS BAD BOY
NO MONEY DOWN
HUNDREDS OF ITEMS NOW ON SALE AT TREMENDOUS SAVINGS!

EXTRA! EXTRA! LOWEST PRICES IN TOWN GUARANTEED BAD BOY AFTER INVENTORY CLEAR-OUT

AT ALL FABULOUS 31 BAD BOY STORES

ATTENTION! BARGAIN HUNTERS

3,451 PIECES AIR CONDITIONERS
AT COOL SAVINGS!

2,788 PIECES REFRIGERATORS
AT PRICES THAT JUST WON'T KEEP!

840 PIECES DISHWASHERS
MOTHER'S DAY IS JUST AROUND THE CORNER!

1,851 PIECES CONSOLE STEREO AND STEREO COMPONENTS MUST GO!

2,457 PIECES RANGES
AT HOT 'N' OUT THEY GO SALE PRICES!

1,944 PIECES WASHERS
YOU CLEAN UP!

2,163 PIECES COLOR TV'S
PRICED LOW TO GO!

722 PIECES DRYERS
AT CARLOAD SAVINGS!

1,634 PIECES BLACK AND WHITE TV'S
UNBEATABLE PRICES!

NOTHING HELD BACK
WE MUST MAKE ROOM FOR NEW ITEMS NOW ARRIVING.

NO MONEY DOWN

FREE DELIVERY

BAD BOY
BIG NAMES - BIG SAVINGS
CLIP COUPONS AND SPEND LIKE REAL MONEY

SAVE A FISTFUL OF DOLLARS

THIS IS NO ORDINARY SALE!

3 DAY BONUS COUPON SALE

THIS COUPON WORTH \$100.
ON THE PURCHASE OF A G.E. 22 CU. FT. SIDE BY SIDE FROST FREE REFRIG. MAR. 15

THIS COUPON WORTH \$50.
ON THE PURCHASE OF A 14" GOLD STATE COLOR TELEVISION - FLOOR MODELS GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$70.
ON THE PURCHASE OF AN ADMIRAL 16" SOLID STATE COLOR TELEVISION GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$25.
ON THE PURCHASE OF AN INGLIS 2 SPEED AUTO. WASHER GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$40.
ON THE PURCHASE OF A G.E. 15 CU. FT. FROST FREE REFRIGERATOR - WHITE ONLY GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$35.
ON THE PURCHASE OF A MORFAT 16" SOLID STATE COLOR TELEVISION GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$20.
ON THE PURCHASE OF A GSW WASHER WITH AUTO. MATIC PUMP - WHITE ONLY GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$25.
ON THE PURCHASE OF A SANYO APARTMENT-SIZE AUTOMATIC WASHER GOOD TILL SATURDAY MAR. 15

THIS COUPON WORTH \$100.
ON THE PURCHASE OF A PHILCO 26" SOLID STATE COLOR TELEVISION GOOD TILL SATURDAY MAR. 15

NOBODY BEATS BAD BOY
NO MONEY DOWN
HUNDREDS OF ITEMS NOW ON SALE AT TREMENDOUS SAVINGS!

Expansion

By July 17, 1975, the opening of the store was firmly established as a viable force in the retail industry. The opening of the Côte Vertu store in St. Louis was a team effort that made the first expansion of the company.



Sam 'The Rifle' Etcheverry, former superstar quarterback of the Montreal Alouettes snips the ribbon to officially open the Côte Vertu store. Bad Boy's Executive Vice-President Allen Lastman, holding the ribbon, and a contingent of the management team helped the Montreal sales staff handle the rush of customers on opening day.



The brilliance of the illuminated colour-TV section attracted many couples such as this one.



ABOVE: Shortly after 9 a.m., the Côte Vertu order desk was swamped with customers taking advantage of opening-day special sales.

LEFT: Long roomy aisles allowed families such as these in the bedroom area to casually make their choices without feeling cramped.

n into Montreal

rd Montreal-area store, L'enfant Terrible/Bad Boy was
iture and appliance retailing. These pages highlight the
in St. Laurent as a tribute to our new customers and the
e of Ontario work.



ABOVE: The Côte Vertu store was serene outside the night before the official opening, but inside the staff busily prepared for the morning crowds.



TOP RIGHT: The sunken appliance section in the supersized store permitted our new Montreal customers to stroll comfortably through the vast array of brand-name appliances even on crowded opening day.

MIDDLE RIGHT: A favourite browsing area was the colourful Mod room with its wide selection of contemporary furniture.

BOTTOM RIGHT: A sale is made while the customers relax in the warm Colonial furniture room.



Consolidated Balance Sheet

	April 5, 1975	April 6, 1974
Assets		
Current:		
Accounts receivable:		
Trade	\$ 1,162,847	\$ 1,114,897
Sale of real estate	738,812	565,091
Inventories, at lower of cost and net realizable value	9,756,434	9,478,000
Prepaid expenses	507,713	408,170
Income taxes recoverable	875,116	—
Real estate (Note 8)	4,479,069	—
	<u>17,519,991</u>	<u>11,566,158</u>
Real estate (Note 1)	2,916,986	1,489,889
Bonds, at cost	105,000	30,000
Fixed assets (Note 1)	1,902,438	1,196,778
Deferred charges (Notes 1 and 8)	<u>703,213</u>	<u>247,757</u>
	<u>\$23,147,628</u>	<u>\$14,530,582</u>

See accompanying notes.

On behalf of the Board:

MELVIN LASTMAN, Director

ALLEN LASTMAN, Director

	April 5, 1975	April 6, 1974
Liabilities		
Current :		
Bank indebtedness (Note 2)	\$ 8,646,621	\$ 2,579,242
Customers' deposits	573,183	564,861
Accounts payable and accrued liabilities	4,660,368	4,302,161
Current deferred taxes	138,220	—
Current portion of long-term debt	445,887	80,000
Income taxes payable	—	704,169
	<u>14,464,279</u>	<u>8,230,433</u>
Long-term debt (Note 3)	<u>1,666,513</u>	<u>475,000</u>
Deferred income taxes payable (Note 1)	<u>234,549</u>	<u>92,000</u>

Shareholders' Equity

Capital stock :		
Authorized :		
3,000,000 Common shares, no par value		
Issued :		
2,000,000 Common shares	4,190	4,190
Retained earnings	<u>6,778,097</u>	<u>5,728,959</u>
	<u>6,782,287</u>	<u>5,733,149</u>
	<u>\$23,147,628</u>	<u>\$14,530,582</u>

See accompanying notes.

Auditors' Report

To the Shareholders of
Bad Boy Appliances and Furniture Limited.

We have examined the consolidated balance sheet of Bad Boy Appliances and Furniture Limited and its subsidiaries as at April 5, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 5, 1975 and the results of their operations and the changes in their financial position for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Toronto, Ontario,
June 16, 1975.

Laventhol & Howarth
Chartered Accountants.

Consolidated Statement of Earnings and Retained Earnings

	For the fiscal years ended	
	April 5, 1975 (52 weeks)	April 6, 1974 (53 weeks)
Retail sales	\$48,498,585	\$47,370,444
Income from operations before the following charges	\$ 2,833,317	\$ 3,882,564
Interest	126,937	(11,032)
Depreciation and amortization	186,005	131,112
Montreal start-up costs	178,913	—
Earnings before income taxes	2,341,462	3,762,484
Income taxes	1,151,148	1,918,587
Net earnings	1,190,314	1,843,897
Retained earnings, beginning of year	5,728,959	4,026,062
	6,919,273	5,869,959
Tax paid to create tax-paid undistributed surplus	21,176	21,000
Dividend paid out of tax-paid undistributed surplus	120,000	120,000
	141,176	141,000
Retained earnings, end of year	\$ 6,778,097	\$ 5,728,959
Earnings per share	\$.60	\$.92
Fully diluted earnings per share (Note 4)	\$.59	—

See accompanying notes.

Consolidated Statement of Changes in Financial Position

	For the fiscal years ended	
	April 5, 1975 (52 weeks)	April 6, 1974 (53 weeks)
Financial resources were provided by :		
Net earnings	\$ 1,190,314	\$ 1,843,897
Add items not requiring a current outlay of working capital :		
Depreciation and amortization	186,005	131,112
Deferred income taxes	142,549	92,000
Miscellaneous	—	3,936
Working capital provided by operations	1,518,868	2,070,945
Proceeds of mortgage financing	1,000,000	—
	<u>2,518,868</u>	<u>2,070,945</u>
Financial resources were used for :		
Purchase of fixed assets net of long-term debt assumed (1975—\$288,016 ; 1974—Nil)	580,288	452,233
Bonds	75,000	20,000
Loss on disposition of real estate holdings (Proceeds 1975—\$525,000 ; 1974—\$2,075,000)	332,166	258,594
Acquisition of real estate, net of mortgages assumed (1975—\$649,384 ; 1974—\$475,000)	777,713	839,821
Computer programming costs deferred	146,650	—
Reduction in long-term debt	745,888	23,000
Tax paid to create tax-paid undistributed surplus	21,176	21,000
Dividend paid out of tax-paid undistributed surplus	120,000	120,000
	<u>2,798,881</u>	<u>1,734,648</u>
Increase (decrease) in working capital	(280,013)	336,297
Working capital at beginning of year	3,335,725	2,999,428
Working capital at end of year	<u>\$ 3,055,712</u>	<u>\$ 3,335,725</u>

See accompanying notes.

Notes to Consolidated Financial Statements

April 5, 1975

1. Accounting policies:

The following is a summary of the significant accounting policies of the company:

i) Principles of consolidation:

These consolidated financial statements include the accounts of the company and its subsidiaries. All subsidiaries are wholly owned.

ii) Real estate:

It is the company's current policy to select land sites for development. Upon completion of construction it has been the company's policy to sell the sites and lease back facilities for Bad Boy locations.

iii) Capitalization of carrying charges:

The company capitalizes interest and property taxes as part of real estate costs. The following amounts have been capitalized during the year:

Interest	\$400,832
Property taxes	21,552
	<u>\$422,384</u>

iv) Fixed assets:

The company amortizes its leasehold improvements on a straight-line basis over the original terms of the leases. Other fixed assets are depreciated on the diminishing balance method at the rates indicated below.

	Rate	April 5, 1975	April 6, 1974
Leasehold improvements	—	\$1,792,876	\$1,252,251
Furniture and fixtures	20%	286,640	197,330
Automotive equipment	30%	62,334	58,234
Signs	35%	62,405	46,261
Computer	20%	206,366	—
		<u>2,410,621</u>	<u>1,554,076</u>
Accumulated depreciation		508,183	357,298
		<u>\$1,902,438</u>	<u>\$1,196,778</u>

v) Deferred charges:

- It is the company's policy to amortize profits and losses on sale and leaseback transactions over the term of the lease commitments.
- Costs incurred for computer programming will be amortized on a straight-line basis over three years.

The deferred charges are summarized as follows:

Sale and leaseback transactions:

Losses incurred to April 6, 1974	\$257,652
Losses incurred during the year	332,166
	<u>589,818</u>

Amortization to date (1975 — \$23,360; 1974 — \$9,911)

33,255

Unamortized losses April 5, 1975	556,563
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Computer programming costs (amortization to commence in 1976 fiscal year)

146,650

\$703,213

vi) Income taxes:

The companies charge operations with income taxes applicable to current earnings. Income taxes are deferred by claiming deductions for income tax purposes in years other than the year in which such deductions are made to operations.

2. Bank indebtedness:

The bank indebtedness includes bank loans of \$8,421,260 against which accounts receivable are pledged as collateral. Additional security is provided by demand debentures of \$8,500,000 representing a first floating charge on all the assets and undertakings of the company.

3. Long-term debt:

Mortgages payable on real estate	\$1,824,384
Balance due on conditional sales contract	288,016
	<u>2,112,400</u>
Less current portion	445,887
	<u>\$1,666,513</u>

The mortgages payable bear interest at rates ranging from 7% to 13%. The mortgages mature during the 1976 (\$430,000) and 1977 (\$1,394,384) fiscal years.

The balance due on the conditional sales contract is repayable over a term of seven years.

4. Stock options:

The company has reserved 100,000 shares for the granting of options to directors and key employees and have granted options in respect of 68,000 of such shares at the price of \$7.75 per share (being the market value of the shares at the date of the granting of the options). None of the options granted has been exercised and none has expired to date. All such options expire at various dates up to March 31, 1978.

The calculation of fully diluted earnings per share is based on the assumption that all employees' stock options outstanding

were exercised on the date they were granted and the funds derived therefrom have been invested to produce an annual rate of return of 5% after applicable income taxes.

5. Contingent liability:

A writ and statement of claim was issued against the company in April 1974 claiming approximately \$650,000 as a result of a fire in a shopping plaza in which a Bad Boy store occupied space. \$500,000 of the alleged loss is covered by insurance. The total claim is being defended.

6. Long-term leases:

Leases for premises, including those leases subsequently entered into (Note 8), expire at various dates up to 2005. Minimum rental payments for the 1976 fiscal year (exclusive of other occupancy charges and rent payable based on a percentage of gross sales) will amount to approximately \$2,400,000.

7. Remuneration of directors and senior officers:

The aggregate direct remuneration paid or payable to directors and senior officers for the fiscal year ended April 5, 1975 amounted to \$314,350 (\$344,800 for the fiscal year ended April 6, 1974).

8. Subsequent events:

On April 28, 1975 the company sold (and leased back) certain of its real estate holdings for \$5,050,000 cash resulting in a net gain of approximately \$316,000. This gain will be amortized over the terms of the respective leases.

At April 5, 1975 the carrying value of the real estate sold, amounting to \$4,479,069 and the applicable mortgages of \$175,000 are included in the current assets and current liabilities respectively. Construction costs and other expenses subsequently incurred approximate \$255,000.

Concurrently, the proceeds from these sales were used to discharge the mortgages payable and reduce the bank indebtedness by approximately \$4,800,000.

The following is a summary, on a pro forma basis, of the working capital of the company as if the above transactions had taken place on April 5, 1975:

Current assets	\$13,040,900
Current liabilities	9,669,300
Working capital	<u>\$ 3,371,600</u>

9. Certain of the 1974 figures have been reclassified to conform with the 1975 presentation.

Store Locations

Metropolitan Toronto Area

37 Arrow Road
Weston

1400 Bathurst Street,
Toronto

188 Clarence Street,
Brampton

745 Danforth Avenue,
Toronto

3026 Danforth Avenue,
Toronto

900 Dufferin Street,
Toronto

2780 Dufferin Street,
Toronto

38 Dundas St. West,
Mississauga

1225 Dundas St. East,
Mississauga

3030 Dundas St. West,
Toronto

5230 Dundas St. West,
Islington

2665 Eglinton Ave. E.,
Scarborough

1165 Kennedy Road,
Scarborough

2814 Lakeshore Blvd.,
Toronto

3711 Lawrence Ave. E.,
Scarborough

45 Overlea Blvd.,
Thorncliffe Plaza,
East York

180 South Service Road,
Oakville

2737 Weston Road,
Weston

4783 Yonge Street,
Willowdale

10165 Yonge Street,
Richmond Hill

Other Ontario Centres

870 Algonquin Blvd. E.,
(Highway 101)
Timmins

2371 Barton St. E.,
Hamilton

215 Eugenie St. W.,
Windsor

385 Frederick Street,
Kitchener

540 Gardiners Road,
Kingston

Hwy. #26 & #27,
(1 m. n. of Hwy. #400)
P.O. Box 850,
Barrie

34 Marshall St. E.,
North Bay

1620 Merivale Road,
Ottawa

450 Notre Dame Blvd.,
Sudbury

Willow West Plaza,
Silvercreek Parkway,
Guelph

Montreal Area

3400 Côte Vertu Road,
St. Laurent, Quebec

6875 Jean Talon St. E.,
St. Léonard, Quebec

1875 Panama Street,
Brossard, Quebec

